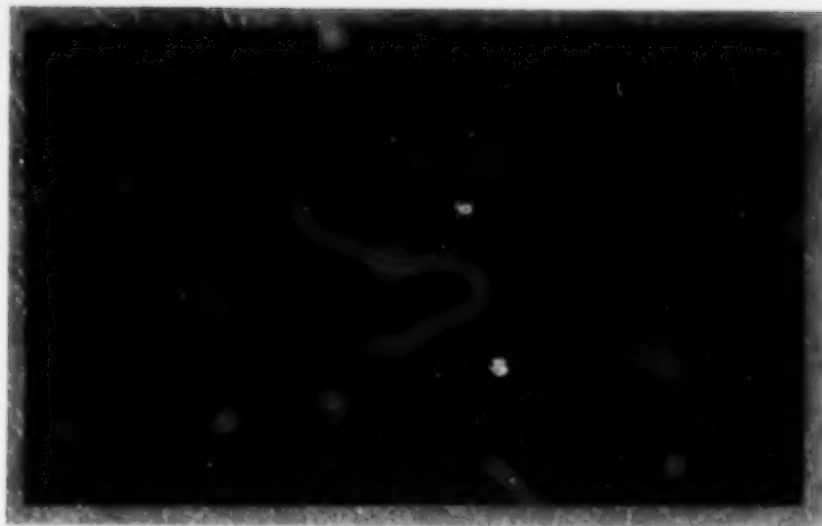


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CHINA'S OPEN DOOR AND SHIPPING

by

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CHINA'S OPEN DOOR AND SHIPPING

This paper reviews the development of the international merchant marine activities of the People's Republic of China, and relates that country's maritime ambitions to the structure of her foreign trade. Elements reviewed include China's "Open Door" policy, her main trade partners and a comparison of China's fleet expansion with communist bloc countries and South East Asian shipping centers.

The composition of China's merchant marine is discussed with particular attention to the great concentration of this fleet in general cargo markets. The role of China's maritime State enterprises is identified and their impact on the competitiveness of international shipping markets is discussed.

It is observed that problems of transportation infrastructure, both in ports and inland, combined with limited maritime capacity, give rise to considerable waste. These difficulties cannot be expected to be quickly overcome.

It is concluded that China is only selectively and discretionarily "open" for trade. While many political and economic barriers have been removed, bureaucratic practices and conventional thinking, including fear of dominance by foreign firms, remain. Foreign shipping lines will continue to be allowed to serve China's foreign trade across the oceans, but direct access to Chinese cargo markets in the form of foreign sales organizations working freely in China is an unlikely prospect.

Key words: China, People's Republic of China, international shipping, China's merchant marine, Chinese maritime policies.

LA PORTE OUVERTE DE LA CHINE ET LE TRANSPORT MARITIME

Ce rapport passe en revue le développement des activités de la marine marchande de la République Populaire de Chine et nous fait part des ambitions maritimes de la Chine jusqu'à la structure de ses échanges internationaux. Quelques-uns des sujets abordés sont sa politique "Porte Ouverte", ses principaux partenaires d'échanges et une comparaison entre l'expansion de la flotte chinoise avec les pays du bloc communiste et les centres maritimes du Sud-Est Asiatique.

La composition de la marine marchande chinoise y est discuté, portant une attention particulière sur la grande concentration de cette flotte dans les marchés de cargaison générale. Le rôle des entreprises maritimes d'Etat est identifié et une discussion de leur impact sur la compétitivité des marchés maritimes internationaux y est présentée.

On observe un grand gaspillage résultant des problèmes infrastructurels de transport, tant à l'intérieur des ports que sur terre, combinés à une capacité maritime limitée. Ces difficultés seront difficiles à vaincre.

La conclusion à laquelle le rapport nous amène est que la Chine n'est ouverte à l'échange que de manière sélective et discrétionnaire. Même si plusieurs barrières politiques et économiques n'existent plus, les pratiques bureaucratiques et une manière de penser conventionnelle, incluant la peur d'être dominé par les firmes étrangères, demeurent. Les compagnies de navigation continueront à faire des échanges avec la Chine mais un accès direct aux marchés de cargaison chinois sous forme d'organisations internationales des ventes à l'intérieur de la Chine ne semblent pas être perspective réaliste.

Mots clés: La Chine, la République Populaire de la Chine, transport maritime international, la marine marchande de la Chine, les politiques maritimes de la Chine.

CHINA'S TRADE AND DEVELOPMENT STRATEGIES

It is remarkable that neither the ancient Egyptians, nor the Indians, nor the Chinese, encouraged foreign commerce, but seem all to have derived their great opulence from this inland navigation. Adam Smith, (1).

Introduction

As Adam Smith observed, the Chinese do not appear to have taken much interest in international shipping in that country's glorious past. China's entry into the world of leading maritime nations is of recent origin and can be linked to the reorientation in its foreign trade policy which followed two decades of economic and political isolation behind the bamboo curtain. This isolation reached extreme heights during the 1960s and lasted well into the 1970s.

In 1958, as relations with the Soviet Union were deteriorating, the People's Republic of China (PRC), the official name of what is commonly known as China, launched a program referred to as the Great Leap Forward. The emphasis was on national and regional self-sufficiency, based on geographic dispersal of manufacturing and creation of "back yard" enterprises. This approach, based more on political dogma and xenophobia than on socialism and economic rationale was worse than a failure. It proved to be outright disastrous economically and socially.

From "Cultural Revolution" to "Open Door"

The economic stagnation which followed the Great Leap Forward and the Sino-Soviet split of 1961 led China to seek out new trading partners overseas in order to recover from the loss of 40 percent of its foreign trade with the Soviet Union. Foreign trade was no longer viewed as evil but rather as necessary for economic growth and access to new technology. The

Cultural Revolution which lasted more than a decade from May 1966 till October 1976, disrupted this trend and China regressed into destructive isolation (2).

Following the devastation caused by the witless Red Guards, China once again slowly turned to the outside, searching for new sources of growth, technology and modernization. These objectives were underlined by the Open Door Policy, established in 1978. Under this policy, the Chinese apply a selective approach in dealing with foreign business, showing a special interest in projects which broaden their industrial and technological base. In order to accelerate the introduction of such projects, joint ventures are not only allowed, but actively encouraged. As part of this strategy, China has set up five Special Economic Zones and designated five Open Areas and 14 Open Coastal Cities (3). More recently, many additional areas have been opened up for foreign investment, notably in the Pearl River Delta and the Yangtze River region.

The aim of the these specially designated areas is to attract foreign investment and technology through cheap labor, low or no taxes, preferential customs treatment and limited bureaucratic interference. Although some success has been reported, particularly in the Guangdong Province in the South, a wide range of difficulties have been encountered in these previously undeveloped areas: insufficient infrastructure, little skilled labor and an excess of bureaucratic intervention. Most joint ventures established to date are mainly in assembling, beer and soft drink plants, and low cost garment and shoe manufacturing. Many such projects appear to be financed from Hong Kong, frequently by expatriate Chinese. In fact, investment in China's special development areas has to a very large extent relied on financial sources coming from expatriate Chinese. Between 1984 and mid-1987 half of the \$6.4 billion in foreign investment came from Hong Kong and Macau businessmen (4).

China's trade partners

The rather common perception of China as a vast potential market for western countries is not supported by present realities. Although more than one sixth of the world's population lives in China, its foreign trade in 1986 represented no more than one percent of the value of world trade (5). While China's impact on world trade remains small, trade has become critical to China's future growth. It now represents the equivalent of one fourth of the country's GNP and is expected to continue to grow, both absolutely and relatively.

It is noteworthy that China's trade is predominantly with its Asian neighbors as seen in Table 1. It is possible that this regional concentration of China's trade may increase overtime. Hong Kong and Japan together accounted for 46.7 percent of overall foreign trade, the top ten trade nations made up 75 percent of China's trade in 1987. An important reason for the increased exports from China to Hong Kong is that city's role as an entrepot for the indirect trade with Taiwan and South Korea (6). In the future, it is likely that China's trade with other regions in South East Asia will increase rapidly. There are already clear signs of this, an interesting example being trade with South Korea. Although no official relations exists between China and South Korea, trade between them is expected to reach a total of US\$ 2.5 billion in 1988, a 38 percent increase from 1987 (7).

Ideology or trade - China's maritime objectives

During the past decades, and notably in the 1960's, much attention was paid to the expansion of the fleets of the Soviet Union and its satellite states. Shipping came to be seen as an extension of nationalistic policies and the drive for political and ideological world dominance. It may be tempting to see

Table 1				
CHINA'S TRADE BALANCE WITH MAJOR TRADE PARTNERS (Renminbi, billions)				
Countries	Total trade Rmb (1)	% of PRC trade	Exports (fob) Rmb	Imports (cif) Rmb
Hong Kong	82.7	26.8	51.3	31.4
Japan	61.6	19.9	23.9	37.7
US	29.3	9.5	11.3	18.0
W. Germany	16.4	5.3	4.6	11.8
USSR	9.5	3.1	4.7	4.8

(1) Exchange rate, average 1987: US \$1 - Rmb 3.72

Source: General Administration of Customs of the PRC. China Customs Statistics, No.1, April 1988, Table 4. Here quoted from Business China, June 20, 1988, p. 84.

Table 2						
SELECTED MERCHANT FLEETS - SOUTH EAST ASIA						
Country	Jan. 1987		Jan. 1977		percent change 1977/87	
	ships	dwt ('000)	ships	dwt ('000)	ships	dwt
Taiwan	194	6,791	151	2,222	28	205
South Korea	455	10,715	191	2,627	138	307
Hong Kong (UK Colonies)	543	21,908	90	3,354	503	554
Singapore	416	11,717	474	9,758	- 12	29
China	1,076	16,447	432	5,310	149	209

Source: U.S. Department of Transportation. Merchant Fleets of the World - Oceangoing Steam and Motor Ships of 1,000 Gross Tons and over as of January 1, 1987. Maritime Administration. Washington, D.C.: Office of Trade Analysis and Insurance. June 1988, Table 5, p. 11.

the maritime policies of China in this light. However, the analogy with the Soviet Union and its maritime policies of the past is most likely incorrect. The Chinese approach appears more pragmatic, based on economic rather than political nationalism.

Table 2 confirms the perception of China as an important participant in the maritime development of South East Asia. A particularly striking fact is the rapid growth of Hong Kong which is expected to return to political and economic control by China in 1997. It is also plausible that there may be increasingly close cooperation between China and Taiwan in the years ahead. China, Hong Kong and Taiwan taken together must be considered as having the makings of a potential maritime power of great significance.

Table 3 gives an overview of fleet development for major maritime communist nations, members of CMEA. The figures in that table clearly demonstrate that ideologically based maritime policies were inadequate to shelter CMEA fleets from the effects of the depressed international shipping market.

It must be concluded that China's maritime expansion has far more in common with significant trading countries in South East Asia than with the Socialist bloc. In summary therefore, it appears reasonable to assume that China's maritime ambitions are largely trade related and not ideologically motivated. In this

Table 3						
MERCHANT FLEETS OF SELECTED CMEA NATIONS						
Country	Jan. 1987		Jan. 1977		percent change 1977/87	
	ships	dwt ('000)	ships	dwt ('000)	ships	dwt
USSR	2,453	24,563	2,517	19,983	- 2	22
Romania	282	4,690	116	1,530	143	206
Yugoslavia	264	4,579	235	2,953	12	55
Poland	266	4,463	300	4,503	- 11	- 8

Source: U.S. Department of Transportation. Merchant Fleets of the World - Oceangoing Steam and Motor Ships of 1,000 Gross Tons and over as of January 1, 1987. Maritime Administration. Washington, D.C.: Office of Trade Analysis and Insurance. June 1988, Table 5, p. 11.

Table 4				
CHINA'S TRADE BALANCE WITH MAJOR TRADE PARTNERS 1987 (U.S \$ - billions)				
Countries	Total trade US \$ (1)	% of PRC trade	Exports (fob) US \$	Imports (cif) US \$
Hong Kong	22.2	26.8	13.8	8.4
Japan	16.6	19.9	6.4	10.1
US	7.9	9.5	3.0	4.8
W. Germany	4.4	5.3	1.2	3.2
USSR	2.6	3.1	1.3	1.3
Singapore	1.9	2.3	1.3	0.6
Canada	1.8	2.2	0.4	1.4
Italy	1.8	2.2	0.6	1.2
Australia	1.6	1.9	0.3	1.3
UK	1.4	1.7	0.5	0.9
All countries(2)	83.0		39.6	43.4

- (1) Calculated using average exchange rate of US \$1 - Rmb 3.72.
 (2) Note that "all countries" include all of China's trade partners, and not just those identified above.

Source: General Administration of Customs of the PRC. China Customs Statistics, No.1, April 1988, Table 4. Here quoted from Business China, June 20, 1988, p. 84.

context, it is of more than passing interest to bear in mind the potential impact on world shipping of Hong Kong's and Taiwan's probable integration with mainland China.

This apparent lack of ideological bias in China's current foreign trade is evident in Table 4 which lists China's ten major trade partners. The Soviet Union was number five among them in 1987. With that notable exception, the other trade partners are what can be described as free enterprise, capitalistic countries. Shipping is of course indispensable for those trade partners which cannot be efficiently reached by rail or road connections. The list of China's ten main trade partners highlights the importance of maritime transport for that country.

COMPOSITION OF CHINA'S FLEET

The importance to shipping of the policies outlined above lies in the fact that shipping as a subset of foreign trade is considered as a critical element in the national development strategy. This is a major reason for China's rapid expansion in ocean transport. By 1987 China had become the 9th largest merchant marine in the world in terms of tonnage. Since 1961 the Chinese shipping tonnage has grown on average 13.5 percent each year, compared with an annual growth of 8.1 percent in the Soviet Union (8).

Rapid fleet expansion

The rapid expansion of the Chinese fleet is all the more remarkable as much of it took place during a period when the world fleet stagnated. Thus, from 1977 until 1987, China's fleet increased from 432 to 1,076 vessels, a total increase of 149 percent compared to a two percent decrease for the world fleet over the same ten year period. Corresponding figures for total dwt tonnage are an increase of 210 percent for China versus a four percent decrease for the world (9).

Table 5		
CHINA'S MERCHANT FLEET 1977-87		
Year (1)	Number of ships	dwt ('000)
1977	432	5,310
1985	901	13,180
1986	1,025	15,624
1987	1,076	16,447

(1) As of January 1, each year

Source: U.S. Department of Transportation. Merchant Fleets of the World - Oceangoing Steam and Motor Ships of 1,000 Gross Tons and over as of January 1, 1987. Maritime Administration. Washington, D.C.: Office of Trade Analysis and Insurance. June 1988, Table 6, pp. 12-13.

In 1977 the Chinese merchant marine was 18th in size in the world, when measured in dwt. Only ten years later, in 1987 China's merchant marine ranked 9th among maritime nations of the world. Its deadweight tonnage increased from 5,310,000 in 1977 to 16,447,000 in 1987, and the number of ships rose from 432 to 1,076. This remarkable achievement underscores the determination of China to be at the forefront of ocean shipping in the years ahead (10).

As shown in Table 6 below, China's merchant marine is strongly oriented towards the general cargo market where only Panama and the Soviet Union have larger fleets and by 1987 China's freighter fleet was greater than those of Japan, Greece and the United States. However, much of the fleet is old and containerization is not far advanced. Thus, China's merchant fleet has an unusually high concentration of freighters which are primarily of the general cargo vessel category, with 83 percent belonging to this group. Only 5.2 percent of China's freighters are fully containerized. Another 9.1 percent are described as partial container vessels. Roro's and barge vessels play only a very minor role (fifteen and two vessels respectively) despite their potential value in many Chinese trades.

Table 6		
COMPOSITION OF CHINA'S MERCHANT FLEET 1987		
Vessel type	Percent of vessels	Percent of dwt
Combination passenger & cargo ships	1.1	0.4
Freighters	67.6	45.0
Bulk carriers	18.3	40.2
Tankers	13.0	14.4
Total	100.0	100.0

Source: U.S. Department of Transportation. Merchant Fleets of the World - Oceangoing Steam and Motor Ships of 1,000 Gross Tons and over as of January 1, 1987. Maritime Administration. Washington, D.C.: Office of Trade Analysis and Insurance. June 1988, Table 6, pp. 12-13.

Table 7	
VESSELS LESS THAN 15 YEARS OLD - EAST ASIA	
Country	Percent of total tonnage (grt) under 15 years
China	54
South Korea	68
Taiwan	75
Singapore	89
Japan	90
Hong Kong	93

Source: Lloyd's Register of Shipping. Here quoted from OECD. Maritime Transport 1986. Paris: 1987, Table XVIII (a), p. 201.

Indeed, as shown in Table 7, China stands out as having by far the oldest fleet among the major maritime countries in Eastern Asia. As of mid-1986 only 54 percent of China's fleet was less than 15 years of age, compared with 75 percent for the world as a whole, and 93 percent percent for Hong Kong. Although major efforts are being undertaken by COSCO, China's dominant international carrier (to be reviewed later in this paper), in order to streamline and modernize its fleet, there can be little doubt that it will take many years before China will possess a modern fleet comparable in quality to those of its regional competitors.

CHINESE SHIPPING AND STATE ENTERPRISE

Although China over the last decade has experimented extensively with the introduction of market mechanisms in a planned and centrally controlled economy, it is illusory to expect Chinese shipping to quickly free itself from the dominance of State owned and controlled enterprises. A few of the most important Chinese corporations involved in ocean transport, either directly or indirectly, are reviewed below.

China Ocean Shipping Company (COSCO)

COSCO is China's national fleet carrier for foreign trade and recently represented 76 percent (presumably of dwt tonnage) of the Chinese national fleet according to an undated company brochure. COSCO's foundation in 1961 was prompted by the Sino-Soviet split and the subsequent need to establish a national fleet solidly under the control of the central government. This was thought desirable to avoid foreign currency spending on ship charters and dependency on foreign vessels for trade.

As the privileged national carrier, COSCO enjoys special links with the Ministry of Communications (MOC) and the Bank of China, enabling it to quickly take advantage of China's expanding foreign trade by giving it access to funds for investment in new vessels. COSCO's foreign currency earnings from international maritime transport represent an additional financial source for expansion and modernization of its fleet. This availability of foreign funds is critical as many Chinese shipyards recently have required half of the payments for new ships in foreign currency. So-called "private" or local Chinese shipping companies find themselves severely handicapped relative to COSCO in this respect.

Through the Ministry of Communications, COSCO also controls 127 vessels of a total of 3.9 million dwt, which sail under Liberian, Panamanian, and British Colonies (primarily Hong Kong) flags. Thus, China will resort to the use of flags of convenience which allows the country to place extra tonnage under its control and to obtain additional foreign currency earnings (11).

To get a more tangible measure of the importance of COSCO's size as a carrier, it is interesting to observe that in 1985 it handled 60 million tons of freight (apparently including chartered tonnage) compared with 127 and 27 million tons carried

by the Soviet Union and US flags respectively (12).

China National Foreign Trade Transportation Corporation
(SINOTRANS)

SINOTRANS, established in 1950, acts as the general freight forwarding agent for the People's Republic of China, operating under the authority of the Ministry of Foreign Economic Relations and Trade (MOFERT). Its business scope is freight forwarding, warehousing and ship agency operations. Through a subsidiary, SINOCHART, it charters vessels and books space for its clients.

The purpose of SINOTRANS is to facilitate and execute all forwarding functions relating to Chinese imports and exports. As all foreign trade forwarding activities go through SINOTRANS channels, the company is in a strategic position to effectively control information, product flow and cargo distribution. This may be particularly true within China where SINOTRANS is reported to have 45,000 employees and where foreign firms at best have been limited to a few employees maintaining a skeleton representative presence only.

China State Shipbuilding Corporation (CSSC)

CSSC operates with ministerial status directly under the State Council. The corporation controls China's shipbuilding activities. It has been one of CSSC's policies to solicit orders for specialized or technically advanced ships. This enables CSSC to gather technology needed for further development. Although shipbuilding may not be considered a major national priority at this time, it is expected that China will continue to seek greater international markets for Chinese built ships. Several European shipowners, including Norwegians and West Germans, have had ships built in China, usually under some arrangement providing for transfer of advanced maritime technology to China.

CHINA'S MARITIME STRATEGIES

Sales offices - barriers to entry

COSCO's long term competitive position is significantly strengthened by its freedom to set up sales offices, representative agreements and subsidiaries in western countries, while no similar freedom exists within China for western shipping companies. In some cases representative offices have been permitted, but although they constitute a physical presence, their ability to do business is severely restricted. They are normally not allowed to handle currency transactions, and lack the logistical and financial support systems necessary to effectively develop cargo markets. There is presently a token existence in a vast market they cannot access except through Chinese intermediaries.

Given the inadequacy of Chinese port facilities, foreign lines generally depend on feeder services from the Chinese mainland to major traffic centers in South East Asia. An important constraint is imposed on such services by China which considers traffic between mainland China and Hong Kong to be cabotage, and therefore reserved for Chinese vessels. COSCO and local Chinese shipping companies, benefiting from this protected market, operate feeder services into Hong Kong. Foreign owners operating overseas to and from Hong Kong have found that costly feeder arrangements between Hong Kong and Chinese ports place them at considerable disadvantage relative to COSCO.

Market shares and cargo sharing

China's general preoccupation with balancing of her foreign trade, if possible on a bilateral basis, is well known. The same phenomenon can also be observed in shipping where China prefers to consider jointly all forms of shipping - liner and charter services or, put differently, general cargo and bulk - when

evaluating what constitutes a "fair share" for Chinese flag vessels in a given trade. This form of compensation principle has already given rise to conflicts with at least one important trade partner.

In the case of her trade with Japan, China has proposed to off-set high market shares in liner shipping against low shares in bulk transport. This would allow the Chinese to claim that they have less than their fair share of the overall trade, i.e., less than fifty percent (13).

Table 8			
MARKET SHARES IN US-CHINA LINER TRADES			
Year	US Flag (percent of value of two-way trade carried)	PRC Flag	Third Flag
1980 (1)	17	2	81
1981	14	15	71
1982	21	21	58
1983	21	22	57
1984	17	26	57
1985	24	18	58
1986	28	17	55
1987 (2)	26	15	59

(1) 1980 period: 9/17/80 to 12/31/80

(2) 1987 period: 1/01/87 to 9/31/87

Source: US MarAd data (unpublished).

In most important liner markets, however, China lacks the capacity to achieve anywhere near fifty percent of the traffic. Statistics on market shares in US-China trades are interesting in this respect. Table 8 gives an overview of market shares for 1980-1987. It should be noted, however, that behind these figures are great variations depending on direction of trade (inbound or outbound).

The Chinese market share in US trades seems to have been

locked in the range 15 to 25 percent, primarily because of inadequate capacity. Table 9 suggests an additional but related reason. Chinese participation in liner services, although global in scope, is selective and relatively concentrated in a few segments, while a minimal presence is maintained in others. For instance, although COSCO was a dominant carrier in the US Gulf Coast/Far East markets with close to half of this rather limited market in 1987, it ranked 18th or 19th in the far more important US Pacific Coast market with a market share of between one and two percent of tons carried.

The Tables 8 and 9 are useful in bringing more realism to the debate surrounding socialist fleets' penetration of western trade routes. While a significant force in shipping on an aggregate scale, China's impact on the world's main trade routes remains modest.

Table 9				
COSCO'S SHARE IN SELECTED US LINER MARKETS 1987				
Trade	Number of carriers	Size of market (million metric tons)	COSCO's Market Share rank (percentage)	
US East Coast/ Far East exports imports	15	4.025	8	5.3
	17	4.213	7	5.8
US Gulf Coast/ Far East exports imports	4	0.403	2	47.3
	4	0.068	1	48.7
US Pacific/ Far East exports imports	26	13.097	19	0.7
	27	12.689	18	2.0

Source: Industry data developed from The Journal of Commerce statistics.

ADMINISTRATION AND INFRASTRUCTURE

One difficulty in evaluating China's ambitions and policies in maritime matters is the complexity and diversity of its administration structures. To further complicate matters, there appears to be a considerable rivalry within China among those who perceive shipping primarily as an industry in its own right and those more concerned with shipping serving the commercial needs of the nation. This dual perspective is reflected in the government's organization and management of ocean transport. As a result, Chinese maritime activities are embedded in a complex centralized administrative structure with considerable overlap of activities and responsibilities.

Most shipping activities are directly under the Ministry of Communications (MOC) or the Ministry of Foreign Economic Relations and Trade (MOFERT). According to I.M. Heine (14) MOC's main function is to manage the nation's transport system including the construction and maintenance of infrastructure. MOFERT, the second ministry heavily involved in international shipping matters, is in charge of foreign trade matters but handles also certain aspects of shipping such as the control of shipping terms and services. It also controls SINOTRANS and SINOCHART (a chartering firm). The dual structure of China's administration at the ministerial level, splitting maritime activities between transport ("communications") and trade, shows that meaningful contacts with China concerning shipping matters need to include discussions with both MOC and MOFERT. Shipping and trade cannot be separated.

Western international transportation systems are characterized by competing ports, land-bridges and a wide range of alternative routings. China's situation is different. Lack of capacity on the ocean side is severely aggravated by a deficient domestic transportation system and problems of interface between the domestic and international sectors.

The elements available to the outside observer are inadequate to allow for a definitive evaluation of Chinese long term strategies in international maritime transport. What is clear, is that the Chinese aim for market penetration. This objective is pursued aggressively by a continuing expansion of fleet capacity, massive port investment and through the establishment of extensive agent networks abroad. Unfortunately, coordination problems and the fundamental inadequacy of the inland transport system result in much waste. Serious delays, damaged cargoes and lost shipments are all too common occurrences.

The Chinese government appears to be quite aware of the deficiencies in respect to quality, and may fear direct competition. As a result, the double-edged sword of price cutting and constraints on market access for foreign shipping companies may remain key elements in Chinese maritime practices for a long time.

CHINA'S MARITIME TRADE: SOME CONCLUSIONS

In general, China has come a long way towards opening her economy to foreign trade and to a lesser extent to foreign investment. Yet, for all the references commonly made to China's "open door" and the introduction of "market mechanisms", it is important to recognize that putting gates in the fence and removing some of the roadblocks of the past, does not amount to "free access".

China is selectively and discretionarily "open" for trade, but while many political and economic barriers have been removed, bureaucratic practices and conventional thinking, including fear of dominance by foreign firms, remain. In concrete terms this means that foreign projects aimed principally at exporting goods with a high Chinese labor content and therefore, probably erroneously, believed to only indirectly affect China, are not

only accepted, but actively encouraged. Foreign projects aimed at penetrating the domestic market cannot expect the same warm welcome. This is the initial *raison d'être* for China's open cities and special economic zones. These areas were conceived as buffers between the foreign economic sector and China's domestic economy. Indeed, the special economic zones were intended as export processing zones, built on the Taiwanese model, and were not to be mistaken for doors into the Chinese domestic market. This may have to change if China is to rejoin GATT. The United States maintains that in order for China to accede to GATT, it must remove the use of special economic zones as buffers, and instead establish a national trade region (15). There are indications that China may partly accept this requirement.

In the case of international shipping, the open door appears to mean that shipping lines may be allowed to serve China's foreign trade across the oceans, but that direct access to Chinese markets in the form of foreign sales organizations working freely in China is an entirely different matter. Under such circumstances it is difficult or impossible for foreign shipping firms to undertake meaningful market activities within China. Other difficulties of an operational nature, such as congested ports, highways and railways, preclude the development of genuine common carrier door-to-door services.

The battle for cargoes to and from China takes place on the oceans and within the territories of China's trade partners. Access to China itself is severely constrained and will most likely remain so for some time to come.

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